

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 EPG-02 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 OMB-01 USIA-06 XMB-02

EURE-00 /065 W

-----060471 052029Z /72

P R 051830Z JUL 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 9572

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION USBERLIN

USMISSION NATO

USNMR SHAPE

AMCONSUL FRANKFURT

AMCONSUL MUNICH

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL HAMBURG

AMCONSUL STUTTGART

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 1 OF 2 BONN 11125

USEEC, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: ECON, EFIN, GW

SUBJECT: MARKED ECONOMIC SLOWDOWN REFLECTED IN LATEST DATA

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1. A TWO-POINT DROP IN THE SEASONALLY ADJUSTED

INDUSTRIAL PRODUCTION INDEX IN MAY AND A DOWNWARD

REVISION OF THE APRIL DATA CLEARLY SHOW A MARKED

DOWNWARD TREND FROM THE FIRST QUARTER. THE MARCH,

APRIL AND MAY INDEX NUMBERS ARE 116, 114, AND 112,

RESPECTIVELY. COMPARISON OF THE APRIL-MAY DATA WITH

THAT OF FEBRUARY-MARCH REFLECTS A 10 PERCENT ANNUAL RATE OF DECLINE IN PRODUCTUION. ALTHOUGH AS ALWAYS THESE DATA ARE SUBJECT TO FURTHER REVISION AND IT WILL BE AT LEAST ONE MORE MONTH UNTIL THE JUNE PRODUCTION FIGURES ARE IN, IT SEEMS MOST UNLIKELY THAT A SUFFICIENTLY HIGH PRODUCTION LEVEL COULD BE REACHED TO RAISE SECOND QUARTER PERFORMANCE UP TO THE LEVEL OF THE FIRST QUARTER. GIVEN THE HEAVY WEIGHT OF INDUSTRIAL PRODUCTION IN THE GNP, THE IMPLICATION IS THAT SECOND QUARTER GNP GROWTH WILL BE LUCKY TO REACH THE ZERO LEVEL, FOLLOWING ON 6 PERCENT AND 4 PERCENT (VERY ROUGHLY ESTIMATED) SEASONALLY AND CALENDAR DAY ADJUSTED ANNUAL GROWTH RATES IN THE PREVIOUS TWO QUARTERS.

2. THE NON-SEASONALLY ADJUSTED INDUSTRIL PRODUCTION DATA ARE NO MORE ENCOURAGING. THE MAY INDEX NUMBER IS ONLY 1.2 PERCENT ABOVE WHAT IW WAS ONE YEAR AGO. THE FIRST FIVE MONTHS OF 1977 AS A WHOLE ARE 3.6 PERCENT HIGHER THAN THE LIKE PERIOD IN 1976 (NON-WORKING DAY ADJUSTED).

3. THE MAY SEASONALLY ADJUSTED TOTAL VOLUME INDEX OF NEW ORDERS WAS DOWN TWO POINTS FROM APRIL, WHICH IN TURN WAS DOWN TWO POINTS FROM MARCH. THE TWO-MONTH COMPARISON OF APRIL-MAY WITH FEBRUARY-MARCH REFLECTS

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ZERO GROWTH. THE DOMESTIC DEMAND PICTURE SOFTENED FURTHER, WITH THE NEW ORDERS VOLUME INDEX FOR THE HOME MARKET TRENDING DOWN FROM 102 IN MARCH TO 100 IN APRIL AND 97 IN MAY. WHILE CONSUMER GOODS DEMAND MANAGED TO HOLD ITS OWN, INVESTMENT GOODS ORDERS DROPPED SIGNIFICANTLY. FOREIGN ORDERS ALSO DECLINED FOR THE SECOND STRAIGHT MONTH, FAILING TO COMPENSATE FOR THE SAGGING DOMESTIC SCENE.

4. SEASONALLY ADJUSTED UNEMPLOYMENT ROSE FOR THE THIRD CONSECUTIVE MONTH IN JUNE TO A LEVEL OF 1,034,000, MIRRORING THE DECLINING PRODUCTION LEVELS. THE AVERAGE NUMBER OF UNEMPLOYED FOR THE FIRST HALF OF 1977 IN SEASONALLY ADJUSTED TERMS COMES TO S:1,014,500,. GIVEN THE PRODUCTION TREND, IT NOW SEEMS LESS LIKELY THAN BEFORE THAT AVERAGE UNEMPLOYMENT IN 1977 WILL DROP BELOW ONE MILLION AND HENCE BE CONSIDERABLY ABOVE GOVERNMENTAL GOALS.

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FM AMEMBASSY BONN

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CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

C O N F I D E N T I A L SECTION 2 OF 2 BONN 11125

SEASONALLY ADJUSTED UNEMPLOYED

(THOUSANDS)

1977

JAN 1017

FEB 34(272

MAR 998

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APR 1009

MAY 1029 (REVISED UPWARD)

JUNE 1034

5. COMMENT: SOME GOVERNMENT OFFICIALS BEMOAN THE POOR QUALITY OF THE STATISTICAL DATA AND SAY THEREFORE NO SOUND CONCLUSIONS CAN BE DRAWN RE THE STATE OF THE BUSINESS CYCLE. (THERE IS EVEN TALK OF SACKING THE LADY WHO HEADS THE FEDERAL STATISTICAL OFFICE.) HOWEVER, NO MATTER HOW SHAKY THE DATA BASE, THERE SEEMS LITTLE DOUBT BUT THAT ECONOMIC ACTIVITY HAS SLOWED DOWN DURING THE LAST FEW MONTHS AND OTHER OFFICIALS WE HAVE SPOKEN TO ARE QUITE WORRIED. AT LEAST ONE FEELS THAT 4 PERCENT REAL GNP GROWTH IS THE MOST THAT NOW COULD BE HOPED FOR AND HE WOULD BE HAPPY IS SUCH A FIGURE COULD BE REACHED. THE QUESTION OF THE POSSIBILITY OF FURTHER STIMULATIVE MEASURES WAS A TOPIC OF CONVERSATION AT A JUST-CONCLUDED, CLOSED GOVERNMENTAL MEETING WITH NO CONCLUSIVE RESULTS, WE WERE TOLD BY A PARTICIPANT. HE NOTED WITH CHAGRIN THAT THE BUNDESBANK REPRESENTATIVE WANTED TO WAIT UNTIL THE END OF THE YEAR "TO SEE WHAT THE DATA LOOKED LIKE".

6. PERTINENT TABLES FOLLOW:

NEW ORDERS VOLUME
SEASONALLY ADJUSTED
(1970 EQUALS 100)

1977	TOTAL	DOMESTIC	FOREIGN
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JAN	107	100	131
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FEB	107	99	136
MAR	113	102	149
APR	111	100	144
MAY	109	97	142

DOMESTIC INVESTMENT AND CONSUMER GOODS NEW ORDERS
SEASONALLY ADJUSTED
(1970 EQUAL 100)

1977	INVESTMENT GOODS	CONSUMER GOODS
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JAN	103	101
FEB	99	100
MAR	102	98
APR	98	101
MAY	95	101

INDUSTRIAL PRODUCTION INDEX

SEASONALLY ADJUSTED
(1970 EQULS 100)

1977

JAN	116
FEB	114
MAR	116
APR	114
MAY	112

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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